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# Message Text

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ACTION COME-00

INFO OCT-01 EUR-12 IO-13 ISO-00 AID-05 CIAE-00 EB-08
FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 STR-07 DODE-00
PA-01 /084 W
----------113519 170207Z /20

R 162220Z JUN 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 7751
INFO AMCONSUL MONTREAL
AMCONSUL QUEBEC
AMCONSUL TORONTO
USMISSION GENEVA

C O N F I D E N T I A L SECTION 01 OF 02 OTTAWA 03052

GENEVA FOR USMTN

E.O. 11652: GDS
TAGS: ETRD, ECON, CA
SUBJECT: CANADIAN PLANS FOR AUTO INVESTMENT INDUCEMENTS: STATE OF PLAY

REFS: A.STATE 150758; B. OTTAWA 2836; C.STATE 153757

1. SUMMARY. GOC ACTIVELY CONSIDERING EXTENT TO WHICH IT SHOULD OFFER TO LURE AUTOMOTIVE INVESTMENT AND HAS OFFERED TO GM A CASH GRANT TO INVEST IN QUEBEC. FORMER DEPUTY MINISTER OF FINANCE SIMON REISMAN HAS BEEN APPOINTED TO EXAMINE AUTO INDUSTRY AND TO REPORT BY END OF OCTOBER. EMBASSY IS CONTINUING TO IMPRESS UPON GOC NEED TO RESTRAIN COMPETITION IN INVESTMENT INDUCEMENTS. END SUMMARY.

2. FINANCE MINISTER CHRETIEN AND IT&C MINISTER HORNER MET RECENTLY WITH ONTARIO PREMIER DAVIS AND OTHER PROVINCIAL CABINET OFFICIALS FOR DISCUSSION OF CURRENT CONFIDENTIAL

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SITUATION AND FUTURE PROSPECTS IN CANADIAN AUTOMOTIVE INDUSTRY. IT&C OFFICIAL TOLD EMBOFF THAT MEETING FOCUSED MAINLY ON ASSESSING INVESTMENT ATTRACTIVENESS OF CANADA VIS-A-VIS U.S. TO DETERMINE: (A) WHETHER DIRECT INVEST-MENT INDUCEMENTS WOULD BE NECESSARY TO LURE INVESTMENT, AND (B) IF SUCH INDUCEMENTS WOULD HAVE SIGNIFICANT IMPACT ON COMPANIES' INVESTMENT DECISIONS. OFFICIAL CHARACTERIZED

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ONTARIO TREASURER MCKEOUGH AS "HARDLINER" WHO RESISTED SUBSIDIZING PROFITABLE COMPANIES AND ENGAGING IN BIDDING WAR WITH U.S. STATES. DAVIS WAS MORE FAVORABLY DISPOSED TOWARD INCENTIVES, WHILE MCKEOUGH ACKNOWLEDGED THAT HE MIGHT HAVE TO CAVE IN THE END. NO FIRM CONCLUSIONS OR DECISIONS WERE REACHED.

3. GOC HAS ALSO PURSUED DISCUSSIONS ON INVESTMENT WITH QUEBEC PROVINCIAL GOVERNMENT OFFICIALS. QUEBEC INDUSTRY MINISTER TREMBLAY INDICATED PUBLICLY THAT GM HAD BEEN OFFERED A GRANT FROM DEPT. OF REGIONAL ECONOMIC EXPANSION (DREE) TO BUILD AN ALUMINUM CASTING PLANT IN QUEBEC. SPOKESMAN FOR GM CONFIRMED JUNE 14 THAT OFFER HAD BEEN MADE, BUT NOTED THAT SEVERAL SITES IN THE U.S. AND IN CANADA WERE STILL UNDER CONSIDERATION AND THAT NO DECISION ON PLANT LOCATION HAD BEEN MADE.

4. SUBSEQUENTLY, GM OFFICIAL HAS TOLD US PRIVATELY THAT COMPANY IS RELUCTANT TO LOCATE AN IMPORTANT ALUMINUM CASTINGS PRODUCTION FACILITY IN QUEBEC BECAUSE OF UNCERTAIN EVOLUTION OF LABOR RELATIONS IN THAT PROVINCE. OFFICIAL INDICATED THAT INDUSTRIAL RELATIONS WITH WORKERS WERE FAIRLY SMOOTH, BUT THAT UNION LEADERS WERE POLITICALLY RADICAL AND SEPARATIST ORIENTED. THUS, THE POLITICAL SITUATION IN QUEBEC LOOMS AS AN IMPORTANT DETEERENT TO INVESTMENT. OFFICIAL REMARKED THAT GM IS INTENSIVELY CONFIDENTIAL

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REVIEWING ADVANTAGES OF VARIOUS SITES BUT THAT FINAL DECISION IS SEVERAL MONTHS AWAY. AT THIS POINT, EMBASSY HAS IMPRESSION GM CASTINGS PLANT WILL MOST LIKELY BE LOCATED IN U.S.

5. AT JUNE 16 PRESS CONFERENCE, IT&C MINISTER HORNER ANNOUNCED (AS DEPARTMENT INFORMED BY CANADIAN EMBASSY) APPOINTMENT OF FORMER DEPUTY FINANCE MINISTER SIMON RESIMAN TO EXAMINE FUTURE GROWTH AND STRUCTURE OF AUTO INDUSTRY AND SUBMIT REPORT BY END OF OCTOBER, 1978. PRESS RELEASE INDICATES THAT GOC HAD HAD DISCUSSIONS WITH AUTO MANUFACTURERS CONCERNING "VITAL IMPORTANCE" OF ENSURING "BALANCED GROWTH" IN NORTH AMERICAN AUTO INDUSTRY, BUT THAT DISCUSSIONS HAD BEEN "INCONCLUSIVE". PRESS RELEASE NOTES THAT "INVESTMENT DECISIONS OVER NEXT SEVERAL YEARS WILL BE OF VITAL IMPORTANCE IN SHAPING THE FUTURE DEVELOPMENT OF THE AUTOMOTIVE INDUSTRY IN CANADA." RESIMAN IS TO EXAMINE THE NATURE OF OWNERSHIP AND CONTROL; RESEARCH AND DEVELOPMENT; AVAILABILITY OF FINANCIAL RESOURCES AND FACTORS AFFECTING INVESTMENT, TAKING INTO ACCOUNT THE AUTOMOTIVE PRODUCTS AGREEMENT AND ARRANGEMENTS NOT COVERED BY THE AGREEMENT (I.E., LETTERS OF UNDERTAKING

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WITH COMPANIES). RELEASE ALSO NOTES CANADA "SHOULD BE ABLE TO LOOK FOR NEW INVESTMENT REFLECTIVE OF THE IMPORTANCE OF THE CANADIAN MARKET." REISMAN WILL HAVE THE POWERS OF A COMMISSIONER UNDER THE INQUIRIES ACT AND WILL HAVE ACCESS TO CONFIDENTIAL COMPANY INFORMATION. MUCH OF REISMAN'S REPORT WILL NOT BE PUBLICLY RELEASED.

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C O N F I D E N T I A L SECTION 02 OF 02 OTTAWA 03052

6. IT&C OFFICIAL TOLD EMBOFF THAT REISMAN APPOINTMENT HAD "RUFFLED FEATURES" OF EXISTING TASK FORCE ON THE AUTO SECTOR. THIS TASK FORCE WAS ONE OF SEVERAL ESTABLISHED FOLLOWING THE FEDERAL/PROVINCIAL ECONOMIC SUMMIT IN FEBRUARY. OFFICIAL NOTED TASK FORCE WAS SCHEDULED TO CONCLUDE ITS WORK NEAR END OF JUNE AND THAT, WHILE IT HAD IDENTIFIED SOME POLICY OPTIONS FOR IMPROVING THE POSITION OF THE AUTO SECTOR , IT WAS UANBLE TO DECIDE AMONG THEM. HORNER WILL MEET WITH TASK FORCE SOON TO DISCUSS RELATION-SHIP WITH REISMAN.

7. COMMENT: REISMAN HAS A WELL-DESERVED REPUTATION FOR BEING CAPABLE, DECISIVE AND AGGRESSIVE (MANY WOULD SAY ABRASIVE). APPOINTMENT OF REISMAN IS HIGHLY VISIBLE POLITICAL ACT CALCULATED TO DEMONSTRATE TO DOMESTIC CRITICS THAT GOC IS ACTING TO REDRESS PRESENT "IMBALANCE" UNDER AUTO PACT.

8. REISMAN'S APPOINTMENT MAY MEAN THAT GOC MAY FEEL IT

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CAN DELAY MAJOR POLICY DECISIONS RE AUTO SECTOR
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- UNTIL THE FALL. IN CONTRAST TO
VIEW EXPRESSED EARLIER BY GOC (REF B), ANNOUNCEMENT OF
SPATE OF MAJOR INVESTMENT DECISIONS IN VERY NEAR FUTURE
IS UNLIKELY. ON THE OTHER HAND, APPOINTMENT OF REISMAN
PROBABLY ALSO SIGNALS NEW WILLINGNESS BY GOC TO INCREASE
PRESSURES ON AUTO COMPANIES TO SEE THINGS ITS WAY.

9. IN CONVERSATIONS WITH GOC OFFICIALS WE SHALL CONTINUE,
ALONG LINES OF REF A, TO UNDERLINE U.S. CONCERN OVER
POSSIBLE NEW FEDERAL PROGRAM OF INVESTMENT SUBSIDIES
AND TO IMPRESS UPON GOC NEED TO CONSTRAIN COMPETITION
IN INVESTMENT INCENTIVES. DUEMLING

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# Message Attributes

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**Decaption Date:** 01 jan 1960
**Decaption Note:**
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**Disposition Approved on Date:**
**Disposition Case Number:** n/a
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**Disposition Date:** 20 Mar 2014
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**Disposition History:** n/a
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**Review Event:**
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**Review Media Identifier:**
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**Review Transfer Date:**
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**To:** STATE
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**Review Markings:**
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